

EASTMAN FAMILY PARTNERSHIP
1853 William Penn Way
PO Box 10368
Lancaster, PA 17605-0368
Phone 717-394-3106
Email: gyale28e@dejazzd.com

March 1, 2005

Mr. Gary M. Jackson
Assistant Administrator for Size Standards
Small Business Administration
409 Third Street, SW
Washington, DC 20416

Reference: RIN 3245-ZA02

Dear Mr. Jackson:

This letter is a response the request for comments on the Proposed Rules for Small Business Size Standards; Selected Size Standards Issues, dated December 3, 2004.

By way of background, I have been involved, as founder, investor or advisor in five companies that have participated in roughly one hundred Phase I and Phase II SBIR contracts over the past twenty years. These include four which currently meet the 500 employee size standard (Advanced Cooling Technologies, STAR-H, Kenna Technologies and Nomadio) and one which won a Tibbetts Award and subsequently outgrew the 500 employee size standard (Thermacore). I've personally written at least thirty SBIR proposals and been the Principal Investigator on more than a dozen of the resulting contracts.

As a result of my experience, I would like to make the following comments.

Size Standards –

I believe the current 500 employee standard is a suitable compromise. Most small businesses would consider a 500 employee competitor to be a big gorilla, representing a formidable degree of competition. Most such companies have both engineering and production capabilities, whereas most companies with fewer than 100 employees have engineering but no, or quite limited, production capacity. That makes it possible for the larger companies to write superior commercialization sections in SBIR proposals, which is seen as improving their chances of receiving a contract award. On the other hand, it is felt that the 500 employee level is quite small when compared to the Lockheeds and

Boeings of the government contracting world. It is repeatedly made clear that many agencies involved in letting R&D contracts have a strong preference for larger companies whenever the potential exists for ongoing production after the R&D stage is over. That makes them favor the largest proposers. Even 5000 employees can be small on this scale.

Employment Size vs. Revenue Size (Receipts) –

At the R&D stage, people are not merely one of a number of important considerations, they are everything. The company with the right people can overcome almost any handicap. If they don't have, and can't afford, the needed equipment, they will design and make it. If there is no process to give them what they need, they will develop one. If the technical approach they initially proposed doesn't pan out, they will come up with one that will – and before the money runs out. Revenues are not a first order effect in this process; motivation and resourcefulness are. It is proper to measure such companies by their employees, not their revenues. Yes, it is possible to cheat. However, if people want to cheat, they will – regardless of the rules. In fact, the very people that are resourceful enough to be successful at R&D contracts are also capable of finding a way to use that resourcefulness to bend the rules. You can't have the one without the other. There's an enforcement issue. That's why it's important for contract monitors to visit contractors at their workplaces. It's where savvy contract monitors and DCAA come in.

I don't believe there is much to be gained by instituting a series of tiered size standards. It would seem to add considerable administrative and enforcement complexity for marginal returns in terms of benefits.

Affiliation and Joint Venture Provisions –

The rules here should be clear and unequivocal. Businesses should be allowed to cooperate in bidding on and carrying out SBIR contracts. A small business should be the lead, or prime, contractor. Any combination of interlocking ownership should not lead to a violation of the size standards. Ownership in excess of 50% should be allowed so long as the combined venture meets the size standard.

Majority Ownership by Venture Capital Companies –

This should be discouraged. I have experience both as a manager of a company which received a venture investment and as a venture investor myself. For a venture firm, or any outside investor, to have a majority stake in a small business can be seriously counterproductive. The result is an inevitable reduction of the motivation of the entrepreneur(s). Most entrepreneurs start businesses because they want to be able to call their own shots. Without the control that makes this possible, the motivation can be lost or reduced. That's a sure path to failure. No venture guy in his right mind would take a majority stake in a startup company.

I hope this helps.



G. Yale Eastman
General Partner